



FEDERAL ELECTION COMMISSION

WASHINGTON, D.C. 20463

August 3, 1999

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Chip Nielsen, Esq.
Nielsen, Merksamer, Parinello, Mueller & Naylor
591 Redwood Highway
#4000
Mill Valley, CA 94941

RE: MUR 4736
Citizens Allied for Free Enterprise
and Diane Knight, as treasurer

Dear Mr. Nielsen:

As part of its consideration of Matter Under Review 4736, the Federal Election Commission ("the Commission") has found reason to believe that Citizens Allied for Free Enterprise and Diane Knight, as treasurer, (referred to collectively hereinafter as "the Committee") violated 2 U.S.C. § 434 and § 441f, which are provisions of the Federal Election Campaign Act of 1971, as amended ("the Act"). The Factual and Legal Analysis, which forms the basis for the Commission's findings, is attached for your information.

The facts underlying the Commission's findings in MUR 4736 are virtually identical to the basis for the Commission's June 1998 findings against the Committee in MURs 4568, 4633 and 4634. Due to the related nature of these MURs, the Commission has decided to investigate MUR 4736 concurrently with its investigation in MURs 4568, 4633 and 4634. Future communications regarding this MUR will refer to MURs 4568, 4633, 4634 and 4736 as being part of a single investigation.

For your information, this Office has considered and will treat the Committee's responses and submissions in MURs 4568, 4633 and 4634 as if they also had been filed in MUR 4736. You also may submit additional factual or legal materials that you believe are relevant to the Commission's consideration of this matter. Please submit such additional materials to the General Counsel's Office within 15 days of receipt of this letter. Where appropriate, statements should be submitted under oath. In the absence of additional information, the Commission may find probable cause to believe that a violation has occurred and proceed with conciliation.

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If you are interested in pursuing pre-probable cause conciliation, you should so request in writing. See 11 C.F.R. § 111.18(d). Upon receipt of the request, the Office of the General Counsel will make recommendations to the Commission either proposing an agreement in settlement of the matter or recommending that pre-probable cause conciliation not be pursued. The Office of the General Counsel may recommend that pre-probable cause conciliation not be entered into at this time so that it may complete its investigation of the matter. Further, the Commission will not entertain requests for pre-probable cause conciliation after briefs on probable cause have been mailed to the respondent.

This matter will remain confidential in accordance with 2 U.S.C. §§ 437g(a)(4)(B) and 437g(a)(12)(A) unless you notify the Commission in writing that you wish the matter to be made public.

If you have any questions, please contact Mark Shonkwiler or Marianne Abely at (202) 694-1650.

Sincerely,



Scott E. Thomas
Chairman

Enclosure:
Factual and Legal Analysis

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FEDERAL ELECTION COMMISSION

FACTUAL AND LEGAL ANALYSIS

RESPONDENTS: Citizens Allied for Free Enterprise MUR: 4736
and Diane Knight, as treasurer¹

I. GENERATION OF THE MATTERS

The respondents were added to MUR 4736, which relates to the involvement of Triad Management Services, Inc. ("Triad") in various 1996 congressional elections, on the basis of information ascertained by the Commission in the normal course of its supervisory responsibilities. *See* 2 U.S.C. § 437g(a)(2).

The Commission currently is investigating similar allegations as part of an ongoing investigation in MURs 4568, 4633 and 4634. The Commission determined that it will investigate MUR 4736 jointly with MURs 4568, 4633 and MUR 4634.

II. FACTUAL AND LEGAL ANALYSIS

The Commission believes that the specific incidents recounted in the subject MURs are most appropriately viewed in the context of Triad's involvement in the 1996 election cycle. During the latter part of 1996 and throughout 1997, there were a number of press accounts concerning the activities of Triad in connection with these federal elections. In summary, it was reported that Triad came to the aid of a substantial number of Republican campaigns, including the Bob Riley for Congress committee, after learning of their needs through a process it referred to as a "political audit."

¹ Laura Mahan was the treasurer of the Citizens Allied for Free Enterprise PAC at the time that the respondents were notified of the complaint in MUR 4633.

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The materials assembled thus far indicate that Triad's assistance may have encompassed setting up a plan to arrange contributions from certain individuals, who already had made the maximum legal contribution to certain federal candidates, to various political action committees ("PACs"). These PACs reportedly then gave identical or nearly identical amounts back to the original contributor's preferred candidate.

The Commission has found reason to believe that, during the 1996 election cycle, Citizens Allied for Free Enterprise and Diane Knight, as treasurer, ("respondents") may have permitted the name of the PAC to be used by Robert Riley, Jr. for the purpose of making a contribution to the Bob Riley for Congress committee in the name of another. The Commission has also found reason to believe that the respondents may have failed to accurately report the nature of its receipts from Mr. Riley and the contributions that it made to the Bob Riley for Congress campaign.

A. THE APPLICABLE LAW

The Federal Election Campaign Act of 1971, as amended, ("the Act") prohibits persons from allowing their names to be used to effect a contribution in the name of another. 2 U.S.C. § 441f. The Act also requires any organization that qualifies as a political committee, including an unconnected committee, to file periodic reports of receipts and disbursements with the Commission. 2 U.S.C. § 434.

B. FACTS

1. Triad

Triad appears to have been created during the 1996 election cycle. Triad reportedly was founded by Carolyn Malenick, who previously had worked as a fundraiser for various political groups and campaigns, including, *inter alia*, Oliver North's 1994 bid for the US Senate. At different times, Ms. Malenick reportedly has described herself as the President and Chief Executive Officer of Triad; the Director of Triad; and the Chief Operating Officer of Triad. *See, e.g.*, 11/19/97 Carolyn Malenick letter-to-the-editor of the Dayton Daily News.

Triad advertises itself as a political consulting firm that provides services to donors interested in making political contributions to conservative candidates, campaigns, issues and projects. Triad attempts to distinguish itself from other political consulting firms by claiming that it only works for donors, not for candidates or campaigns.

Press accounts indicate that Triad representatives have described the company as operating in a manner akin to a stock brokerage for conservative political donors, providing research and analysis of upcoming elections, and dispensing advice on how to maximize the impact of political contributions. *See* 9/28/96 National Journal article. In sum, Triad reportedly seeks to give wealthy contributors advice on how to get the "biggest bang for the buck" with their contributions by telling them which conservative candidates look like winners and which ones need help. *Id.*

2. Triad's Political Audits

At least one news account has reported that Triad personnel and consultants performed what Triad labeled as "political audits" on approximately 250 campaigns

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during the 1996 election cycle. See 10/29/97 Minneapolis Star-Tribune article. This news account also reported that a Triad spokesperson described the purpose of these political audits, many of which reportedly included meetings with the candidate or senior campaign officials, as the identification of "races where donors could support candidates who shared their ideological views and had a viable campaign." *Id.*

The political audit reports released as exhibits to the Final Report on Investigation of Illegal or Improper Activities in Connection with 1996 Federal Election Campaigns by the Senate Committee on Governmental Affairs ("Senate Report") suggest that Triad conducted a standardized review of congressional campaigns. The first point reflected in many of these audit reports was a date on which a Triad representative met with someone from the campaign to obtain the information contained in the audit. Most of the audit reports included as Exhibits to the Senate Report followed a standard format discussing some or all of the topics listed below.

FORMAT OF TRIAD "POLITICAL AUDIT" REPORT

- I. Finances - (assessment of planned expenditures, current cash-on-hand and possible fundraising shortfalls)
- II. Polling - (review of polling trends in race)
- III. Key Issues - (list of issues considered critical to the campaign's success)
- IV. Needs - (campaign's self-identification of specific nonmonetary needs; e.g., big name speaker to attract supporters to rally)

General Observations (Comments on campaign organizations)

Good Points about Campaign - (Subjective analysis of strengths)

Bad Points about Campaign - (Subjective analysis of weaknesses)

<u>Prospect for Victory</u> -	(Assessment of Candidate's Chance to Win)
<u>Action</u> -	(Follow-up Actions for Triad personnel)
<u>Conclusion</u>	(Recommendation on support for campaign)

See, e.g., Triad political audit reports attached to Senate Report.

Indeed, it appears that as part of these audits, Triad met with representatives from each of the campaigns specifically addressed by the MURs, including the Bob Riley for Congress Committee, to discuss the specific strengths and weaknesses of their campaign, and to learn what help the campaign needed to successfully compete in the upcoming election. Information obtained by the Commission suggests that in some instances, after completing an audit, Triad may have had ongoing contacts with some campaigns to assess their developing prospects and needs.

After completing its political audit on a campaign, including the Riley Committee, Triad reportedly provided the results of its research and analysis to prospective political donors. It appears that rather than waiting for donors to make specific requests for information about a particular campaign, Triad periodically sent general "Fax Alerts" to prospective donors which extolled the virtues of various campaigns and provided Triad's recommendations for political contributions. Based on documents attached as exhibits to the Senate reports, it appears that Triad sent no fewer than sixty (60) separate fax alerts between February and December 1996. *See* Triad Fax Alert Index. Further, while the Commission currently lacks information as to how many potential contributors received each Triad Fax Alert, one of the fax alerts in the middle of the known range (No. 28 out of 60) notes that "over 160 businessmen and women have

been added to the Fax Alert in the last 18 months.” *See* 10/10/96 Triad Fax Alert titled “Countdown to Election Day: 27 Days.”

As discussed below, Triad appears to have used the information derived from its “political audits” in a number of different ways that may have resulted in excessive, prohibited and/or unreported in-kind contributions to the Bob Riley for Congress campaign.

2. Triad’s Fundraising Efforts

It appears from the text of the audits attached as exhibits to the Senate report and from examples of the solicitations set forth in what Triad called “Fax Alerts,” that the audits were also a source of information based on which Triad decided where to focus its fundraising resources. The Triad Fax Alerts urge the recipients to make contributions and otherwise support various Triad-recommended candidates in both the primary and general elections. *See* Triad Fax Alerts attached to Senate Report. The Bob Riley for Congress committee are mentioned in several of the Triad Fax Alerts.

Some of the audit reports refer to what appears to have been a practice Triad had of soliciting donors who already had made the maximum legal contribution to particular candidates Triad was seeking to support. In addition, certain of these reports seem to indicate that Triad may have tried to interest such donors in making contributions to certain selected political action committees, which made subsequent, and often identical, contributions to the original donor’s preferred candidate(s).²

² It has been reported that Ms. Malenick acknowledged that Triad would try and match donors referred to it by a candidate to PACs who were likely to support the same candidate, but denied that there was any coordination between the individual contribution to the PACs and the PAC contributions to the candidate. *See* October 8, 1997 Article in

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For example, an excerpt from the Triad audit report of the campaign of Pete Sessions, which is attached to the Senate Minority report, states: "[b]oth Sessions and [the campaign manager] clearly understand the Triad concept and will have a list of their maxed out donors for our inspection as soon as there is a call from Washington." See excerpt from Pete Sessions audit report. Another audit report states that "Ed Merritt has a number of maxed out donors who might want to be introduced to Triad. Towards that end, I have recommended over the telephone to [a Triad employee] that we check out their receptance." See Ed Merritt audit report. In what appears to be reference to the same practice, the Triad audit report on the Sam Brownback for US Senate campaign, notes that Triad will "[n]eed to work with potential clients that may be recommended by the Brownback campaign and with the finance chairman to ensure that Triad is properly

It was in this context that Robert Riley, Jr.,³ who had already donated the maximum legal amount of money to the Bob Riley for Congress committee, made \$5000 in contributions to five PACs, which within a short time, made identical or nearly identical, contributions to the Riley campaign.

On July 22, 1996, the respondent PAC received a \$1000 check from Robert Riley, Jr. through Triad. Two days later, the PAC had made a donation in amount of \$1000 to the Congressman's campaign.

The Hill. Triad's advertisements seem to hint at this by stating that its "services to clients" include "[w]orking with conservative political action committees and issue organizations for efforts to maximize their separate funding sources to accomplish common objectives."

³ Robert Riley, Jr. is the son of Congressman Robert R. Riley.

Name of PAC	Date of Contribution by Riley, Jr.	Amount of Contribution by Riley, Jr.	Date of PAC Contribution to Campaign	Amount of PAC Contribution to Campaign
Citizens Allied for Free Enterprise	5/22/96	\$1000	5/24/96	\$1000

C. ANALYSIS

Based on the information available at this time, the Commission has found reason to believe that the Citizens Allied for Free Enterprise PAC and Diane Knight, as treasurer, violated 2 U.S.C. § 441f by permitting the name of the PAC to be used by Robert Riley, Jr. for the purpose of making a contribution to the Bob Riley for Congress committee in the name of another person. The Commission also found reason to believe that the respondents violated 2 U.S.C. § 434 by failing to accurately report the nature of the PAC's receipts from Robert Riley, Jr. and its contributions to the Bob Riley for Congress Committee.

There are several reasons for believing that the respondents violated the Act. As noted, documents attached as exhibits to the Senate reports appear to indicate that Triad had a practice of asking campaigns that Triad decided to support for lists of their "maxed out" donors. At this time there is no other explanation for the proximity in timing and similarity in amounts between the contributions to the PACs and the subsequent PAC contributions to the Riley Committee. In addition, this was the first time that Robert

⁴ The reported date of the contribution is based on the date of receipt reported by the PACs. The Commission has other information which suggests that Robert Riley, Jr. wrote the checks for all five contributions on May 9, 1996 and that Triad forwarded the five checks to the different PACs with cover letters dated May 10, 1996.

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Riley, Jr. had contributed to this PAC. And while the respondent PAC was entitled to give up to \$5,000.00 to the campaign, the total amount actually donated exactly matched Mr. Riley's original PAC contribution. The data currently available indicates that Triad had communications with both the contributor, Robert Riley, Jr., and with its recommended PAC through which the donation to the Bob Riley for Congress passed. These communications created an opportunity for this PAC to have agreed to make a contribution to a specific candidate, Robert R. Riley, in an amount identical to the contribution that they received from a Triad client, in this case the candidate's son.

In MUR 4633, the respondents submitted a response that denied the allegation that original contributor funds that been funneled through the PAC to the recipient campaign. Notwithstanding the respondents' conclusory denials, the Commission believes that there are substantial unanswered questions regarding these contributions.

The factors outlined above caused the Commission to find reason to believe that Citizens Allied for Free Enterprise and Diane Knight, as treasurer, violated Federal Election Campaign Act of 1971, as amended. Specifically, the Commission found reason to believe that the respondents violated 2 U.S.C. § 441f by allowing the name of the PAC to be used by Robert Riley, Jr. for the purpose of making contributions in the name of another. The Commission has also found reason to believe that Citizens Allied for Free Enterprise and Diane Knight, as treasurer, violated 2 U.S.C. § 434 by failing to accurately report the nature of its receipts from Robert Riley, Jr. and its contributions to the Bob Riley for Congress committee.